

McGladrey & Pullen

Certified Public Accountants

Norfolk Community Services Board (A Component Unit of the City of Norfolk, Virginia)

Financial and Compliance Report
Year Ended June 30, 2006

Contents

Independent Auditor's Report	1 - 2
Management's Discussion and Analysis (Unaudited)	3 - 13
Basic Financial Statements	
Statement of net assets	14
Statement of revenues, expenses and changes in net assets	15
Statement of cash flows	16 - 17
Statement of fiduciary net assets	18
Notes to financial statements	19 - 26
Supplementary Information	
Combining Statement of Changes in Assets and Liabilities - All Agency Funds	27
Schedule of Expenditures of Federal Awards	28
Notes to Schedule of Expenditures of Federal Awards	29
Reconciliation of Federal Revenues Per Audit to the Fourth Quarter State Report	30
Other Information	
Reconciliation of Revenues and Expenses per Audit to the Fourth Quarter State Report (Unaudited)	31
Standard Schedule of Insurance (Unaudited)	32
Schedule of Lease Obligations (Unaudited)	33
Listing of Board of Trustees and Management Team	34 - 35
Organizational Chart	36
Compliance Reports	
Independent Auditor's Report on:	
Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With <i>Government Auditing Standards</i>	37 - 38
Compliance With Requirements Applicable to Each Major Program and Internal Control Over Compliance in Accordance With OMB Circular A-133	39 - 40
Schedule of Findings and Questioned Costs	41 - 42
Summary Schedule of Prior Audit Findings	43

McGladrey & Pullen

Certified Public Accountants

Independent Auditor's Report

To the Board of Trustees
Norfolk Community Services Board
Norfolk, Virginia

We have audited the accompanying financial statements of the business-type activities and the fiduciary fund information of the Norfolk Community Services Board (the "CSB"), a component unit of the City of Norfolk, Virginia, as of and for the year ended June 30, 2006, which collectively comprise the CSB's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the CSB's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and the *Specifications for Audit of Authorities, Boards and Commissions*, issued by the Auditor of Public Accounts of the Commonwealth of Virginia. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities and the fiduciary fund information of the CSB as of June 30, 2006, and the changes in its financial position and its cash flows, where applicable, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 25, 2006 on our consideration of the CSB's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis on pages 3 - 13 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements of the CSB, taken as a whole. The accompanying combining statement of changes in assets and liabilities – all agency funds and the reconciliation of federal revenues per audit to the fourth quarter State report listed as supplementary information in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. The accompanying schedule of expenditures of federal awards also listed as supplementary information in the table of contents is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and the Virginia Department of Mental Health, Mental Retardation and Substance Abuse Services, and is also not a required part of the basic financial statements. Such supplementary information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole. The schedules and other presentations listed as other information in the table of contents have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

McGladrey & Pullen, LLP

Greensboro, North Carolina
August 25, 2006

**MANAGEMENT'S DISCUSSION AND ANALYSIS
NORFOLK COMMUNITY SERVICES BOARD**

For Fiscal Year Ended June 30, 2006



Norfolk Community Services Board

Management's Discussion and Analysis

The following discussion and analysis of the Norfolk Community Services Board's (Board's) financial performance provides an overview of the Board's financial activities for the fiscal year ended June 30, 2006. Please read it in conjunction with the transmittal letter at the front of this report and the Board's financial statements, which follow this section.

FINANCIAL HIGHLIGHTS FOR FY 2006

The Board's financial statements are reported on the full accrual basis as required by GASB 34. On this basis, the Board reported expenses of \$18,945,756 and revenue of \$20,261,707. This produced a net gain of \$1,315,951 for the year.

The fiscal year ("FY") 2006 Performance Contract issued by the Virginia Department of Mental Health, Mental Retardation, and Substance Abuse Services (State) to the Board requires the reporting of financial information on a cash or budgetary basis and requires certain unspent funds from the prior year to be reported as income in the current year. On this budgetary basis, the Board had operating revenue in excess of expenses by \$1,323,635. Reconciliation between the Board's financial statements and the final State Performance Contract Report is included in the Required Supplemental Information section of the Annual Financial Statements.

A component of the excess revenue over expenses is temporarily restricted federal funds that are designated for specific purposes. The Board's net assets totaled approximately \$6.4 million of which \$5.7 million is available to spend at the discretion of the Board. The board carries no debt. All operations are supported through current financial resources.

BASIC FINANCIAL STATEMENTS

The basic financial statements report information about the Board using accounting methods similar to those used by private-sector companies. One of the most important questions asked about the Board's finances is, "Is the Board better or worse off as a result of the year's activities?" The Statement of Net Assets and the Statement of Revenue, Expenses, and Changes in Net Assets, which are included in the basic financial statements, report information about the Board as a whole and about its activities in a way that helps answer this question. These statements include all assets and liabilities using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's true revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the Board's net assets and changes in them. One can think of the Board's net assets – the difference between assets and liabilities – as one way to measure the Board's financial health or financial position. The Statement of Net Assets serves the additional purpose of describing the balances left at year-end that are available for use and any restrictions that apply to those balances. Over time, increases or decreases in the Board's net assets are one indicator of whether its financial health is improving or deteriorating. Other non-financial factors will need to be considered however, such as changing client needs and competition for services, to assess the overall financial health of the Board. A third statement, the Statement of Cash Flows, identifies how cash and other financial assets (that can readily be converted to cash) flow in and out of the organization. The Statement of Cash Flows, when taken together with the Statement of Net Assets and Statement of Revenues, Expenses, and Changes in Net Assets, provides the reader a complete "snapshot" of the financial condition of the Board as of June 30, 2006.

Norfolk Community Services Board

Management's Discussion and Analysis

Financial Analysis

The following table reflects the condensed Statement of Net Assets:

Table 1

Summary of Statement of Net Assets

	June 30, 2005	June 30, 2006	Change	Percent
Cash and cash equivalents	\$ 2,346,647	\$ 3,996,137	\$ 1,649,490	70 %
Investments	3,746,301	3,632,032	(114,269)	(3)
Accounts receivable, client, net	345,276	471,712	126,436	37
Accounts receivable, contract	388,973	210,776	(178,197)	(46)
Due from City of Norfolk	-	25,993	25,993	100
Accrued interest receivable	11,851	11,941	90	1
Other assets	54,433	50,912	(3,521)	(6)
Capital assets	512,391	454,790	(57,601)	(11)
Total assets	7,405,872	8,854,293	1,448,421	20
Accounts payable	390,156	296,637	(93,519)	(24)
Accrued payroll	325,132	350,328	25,196	8
Accrued pension	797,825	874,932	77,107	10
Accrued vacation	747,958	846,528	98,570	13
Other liabilities	29,791	54,907	25,116	84
Total liabilities	2,290,862	2,423,332	132,470	6
Net assets:				
Invested in capital assets	512,391	454,790	(57,601)	(11)
Restricted	98,135	285,077	186,942	190
Unrestricted	4,504,484	5,691,094	1,186,610	26
Total net assets	\$ 5,115,010	\$ 6,430,961	\$ 1,315,951	26 %

The value of cash and cash equivalents increased 70% or \$1,649,490. This increase is largely attributable to the excess revenue over expenditures for FY 06. Investments decreased slightly due to a shift in some investments from longer term instruments to shorter term cash equivalents. These balances do not reflect funds held in trust for regional projects in the amount of \$589,844 as of June 30 which are reported as fiduciary funds in the attached financial reports. One component of the Board's strategic plan is to retain sufficient cash and investment reserves to support the planned issuance of debt to fund planned major investments over the next five year period. See the strategic plan section of this MDA for further detail on planned use of these investments.

Norfolk Community Services Board

Management's Discussion and Analysis

Client accounts receivable, net of allowance for bad debt, increased \$126,436 or 37% due to a large increase in the State Plan Option Medicaid reimbursement rate for case management services and increased billings for psychosocial rehabilitation and other services. Accounts receivable from contract billing decreased \$178,197 or 46% due primarily to the expiration of the Clinical Trials contract and three months of outstanding regional Discharge Assistance Program (DAP) billings in FY 06 compared to a full year of billing outstanding at the end of FY 05.

Capital assets are comprised of Board owned copiers, certain computer equipment and vehicles, and improvements to leased facilities. The Board's capitalization threshold is \$2,000. The value of the Board's capital assets decreased by 11% or \$57,601 due to continued depreciation expense on existing assets with minimal new capital expenditures to offset this expense. In accordance with the Board's strategic plan, a vehicle replacement program was implemented in FY 04 which improved the average life of the fleet. In FY 06, five new vehicles were purchased to replace aging inventory. However, only three vehicles were delivered prior to June 2006.

Accounts payable at FY 06 year-end decreased 24% or \$93,519 from FY 05 year end. An employee healthcare premium of \$90,397 was processed in the 13th accounting period in FY 05 and the 12th accounting period in FY 06. Therefore, this payable was present in the accounts payable at FY 05 year end and not at FY 06 year end. This payable accounts for the majority of the decrease in accounts payable between FY 05 and FY 06 year ends.

Accrued payroll and related taxes increased 8% or \$25,196 concurrent with other payroll related increases. The pension accrual for year end increased by 10% or \$77,107 due to the application of a 7% wage increase and an increase in the projected number of employees eligible for a contribution in the upcoming year.

Total accrued vacation increased by 13% or \$98,570 over the prior year. Approximately half this increase is due to an average 7% wage increase applied to the June 30, 2006 balances. The remaining 6% of this increase is attributable to a combination of factors including a general increase in average employee annual leave balances and increased average tenure resulting in higher leave accrual rates.

Other liabilities include deferred revenue, accrued benefits, and changes in the fiduciary activity fund account. The accrued benefits and activity fund account changes were insignificant in FY 06. Most of the 84% or \$25,116 increase in other liabilities was attributable to \$24,076 in FY 07 federal revenue sent to the Board early by the State. This revenue will be reclassified as federal on-going revenue at the beginning of FY 07 as the relating expenditures are incurred.

As of the close of FY 06, the Board reported net assets of \$6,430,961, an increase of \$1,315,951 in comparison with the prior year. Restrictions to net assets included \$454,790 invested in capital equipment and \$285,077 temporarily restricted for federally funded projects. The restriction for fixed assets decreased due to continued depreciation with no offsetting purchase of new equipment. The Board's unrestricted net assets – the part of the net assets that can be used to finance day-to-day operations were approximately \$5.7 million – an increase of \$1,186,610 or 26% over FY 05.

Norfolk Community Services Board

Management's Discussion and Analysis

Table 2

Statement of Revenues, Expenses, and Changes in Net Assets

	Year Ended June 30, 2005	Year Ended June 30, 2006	Change	Percent
Revenues:				
Program revenues:				
Fee revenues	\$ 4,509,423	\$ 5,913,326	\$ 1,403,903	31 %
Commonwealth of Virginia	7,702,317	7,846,688	144,371	2
Federal awards	2,682,858	2,947,343	264,485	10
Contract revenue	574,621	502,616	(72,005)	(13)
General revenues:				
City of Norfolk	2,262,800	2,775,800	513,000	23
Other income	425,815	20,109	(405,706)	(95)
Investment income	162,401	255,825	93,424	58
Total revenues	18,320,235	20,261,707	1,941,472	11
Expenses:				
Salaries and benefits	13,269,414	13,818,499	549,085	4
Operating costs	439,010	502,802	63,792	15
Services	3,912,682	4,017,007	104,325	3
Equipment	147,206	55,705	(91,501)	(62)
Bad debt expense	2,217	12,843	10,626	479
Depreciation	145,960	109,947	(36,013)	(25)
General relief to clients	248,644	428,953	180,309	73
Total expenses	18,165,133	18,945,756	780,623	4
Change in net assets	\$ 155,102	\$ 1,315,951	\$ 1,160,849	748 %

Norfolk Community Services Board

Management's Discussion and Analysis

REVENUES

For the fiscal year ended June 30, 2006, revenue from all sources totaled approximately \$20.3 million. This represents an increase of 11% over FY 05 total revenue. Fee revenue is earned through services provided to clients. Sources of fee revenue include direct billings to clients, Medicaid and other government insurance programs, private insurance companies, and fee for service contracts. Fee revenue increased 31% or \$1,403,903 in FY 06. This fee increase is the highest single year increase in fee revenue in the Board's history. Approximately \$600,000 of this increase is due to a change in the Medicaid reimbursement rate for State Plan Option case management services; however, the State reduced general fund revenue by an equal amount. Approximately \$800,000 of the increase in fee revenue was due to improved productivity of direct care staff in the delivery of billable services. The FY 06 fee revenue increase demonstrates the effectiveness of management's focus on improving the productivity, effectiveness, and billing performance of several programs.

Although on-going state revenue was reduced to offset the change in the case management billing rate, several additional restricted state revenue sources were added in FY 06. This allowed state revenue to post a modest overall increase of 2% or 144,371 for the year. Additional restricted state funding was appropriated for mental health juvenile justice, facility reinvestment, crisis stabilization, and mental retardation waiver start-up support.

On-going federal revenue continued to decrease in FY 06. However, the Board's HUD Shelter Plus Care grant was transferred from the City's special revenue fund to the Board's main operating fund. This transfer moved in \$352,681 of federal revenue in FY 06. Excluding the Shelter Plus Care grant, federal revenue decreased by 3% or \$88,196 for the year.

Operating contract revenue decreased by 13% or \$72,005 from the prior year due primarily to the discontinuation of the Clinical Trials contract.

Revenue from the City of Norfolk increased by 23% or \$513,000 to provide additional support to City supported initiatives.

Investment revenue increased by 58% or \$93,424 due to higher prevailing interest rates for this period compared to last year and substantial increases in cash balances available for interest earnings. As interest rates improved, the value of long terms bonds held by the Board's investment broker decreased. This decrease in bond value led to an additional loss on investments of \$42,217 which is included in the investment income number.

In FY 05, two miscellaneous revenue transactions representing intergovernmental transfers through the City from the State accounted for an additional \$425,815 in unbudgeted non-operating revenue. This practice was discontinued as of June 30, 2005. The discontinuation of the intergovernmental transfers in FY 06 was the primary factor in the reduction of miscellaneous revenue by 95% or \$405,706 at year end.

Norfolk Community Services Board

Management's Discussion and Analysis

EXPENSES

Overall expenses increased by 4% or 780,623 in FY 06. This increase includes additional rental and utility expenses brought over from the City's special revenue fund associated with the HUD Shelter Plus Care grant. The total Shelter Plus Care grant expenditures were \$326,688. Overall on-going expenses, excluding the Shelter Plus Care transfer, increased very slightly by 2% or \$453,935.

Salary and benefits increased by 4% or \$549,085 from the prior year due to planned annual salary adjustments including GWI and annual increments.

Operating costs increased due to increases in fuel and repair costs for fleet vehicles. Also, the Shelter Plus Care grant transferred moved in \$17,642 in utility assistance payments to the operating costs account group.

Net service expenditures increased 3% or \$104,325 over the prior year. This change is the result of distinct increases and decreases in certain items. A large increase of \$309,046 is attributable rental subsidies that were moved in to the services account group due to the Shelter Plus Care transfer. This increase was offset by a decrease in ongoing services of approximately \$205,000 during the same period.

Non-capital equipment expenditures fell 62% or \$91,501 in FY 06. The computer and network upgrades purchased in preparation for the new Behavioral Healthcare Information System (BHIS) were largely completed in FY 05. Additional information system infrastructure expenditures are expected and will be included with the purchase of the new BHIS system in FY 07.

Bad debt expense increased by 479% or \$10,626 which was primarily due to a single write-off of several old FY 05 MR waiver environmental modification and assistive technology projects totaling \$12,843 that remained unreimbursed by the state at the close of FY 06. Efforts continue with the Department of Medical Assistance Services to obtain reimbursement for these doubtful amounts. If any payments are received in FY 07 or later, such payments shall be classified as miscellaneous revenue when received.

Depreciation expense decreased from the prior year by 25% or \$36,013 due to several vehicles becoming fully depreciated with only a minimal purchase of new vehicles in FY 06. The Board took delivery of three new vehicles in FY 06 and two new vehicles in early FY 07. Each of these new vehicles replaced aging units that will be removed from service.

General relief expense increased from the prior year by 73% or \$180,309 continuing a trend over the past several years. This increase can be attributed to additional client support related to the State Reinvestment Program and local initiatives such as Mental Health Court, hospital diversion, MR Waiver start-up, and housing needs. Housing and medical related general relief expenditures were responsible for the majority of the increases in general relief expenditures.

Norfolk Community Services Board

Management's Discussion and Analysis

BUDGETARY HIGHLIGHTS

Table 3

Budget to Actual Comparison (Cash Basis) Fiscal Year Ended June 30, 2006

	Initial Budget	Revised Budget	Actual	Variance	Difference	
Revenues:						
Fees	\$ 6,237,246	\$ 5,576,478	\$ 5,793,799	\$ 217,321	4	%
Contracts	429,967	586,461	571,938	(14,523)	(2)	
State	7,220,077	7,809,361	7,847,288	37,927	0	
Federal	2,648,499	2,547,036	2,578,295	31,259	1	
Miscellaneous	217,200	23,028	16,909	(6,119)	(27)	
City	2,776,000	2,775,800	2,775,800	-	-	
Deferred	-	98,134	98,134	-	-	
Total revenues	19,528,989	19,416,298	19,682,163	265,865	1	
Expenses:						
Personal services	14,767,019	14,445,798	13,610,364	(835,434)	(6)	
Materials and supplies	428,100	459,900	484,796	24,896	5	
Operating and services	3,898,565	3,942,011	3,710,282	(231,729)	(6)	
Equipment and software	120,705	164,489	110,571	(53,918)	(33)	
General relief, client	314,600	404,100	442,515	38,415	10	
Total expenses	19,528,989	19,416,298	18,358,528	(1,057,770)	(5)	
Difference	\$ -	\$ -	\$ 1,323,635	\$ 1,323,635	-	%

Based solely on budgeted cash collections received prior to June 30, total revenue (including deferred revenue from prior years) exceeded budgeted revenue by 1% or \$265,865. Total expense was under budget by 5% or \$1,057,770. Taken together, the revenue increase and expense reduction generated a gain of \$1,323,635 for FY 06 on a budgetary cash basis. Both revenue and expense budgets were revised mid-year to reflect changes in anticipated program revenue and to adjust for salary savings due to employee turnover. The Board does not budget for non-operating expense such as depreciation expense and pass-through state revenue due to other Community Services Boards for which the Norfolk CSB is designated as fiscal agent. Federal revenue transferred in the amount of \$352,681 at year-end related to the Shelter Plus grant was never budgeted and is not included in the budget to actual revenue calculations.

A budget to actual comparison of revenue demonstrates that fee revenue exceeded the budget estimate by \$217,321 or 4% due to higher than budgeted collections by several programs including large increases in MR case management revenue. Miscellaneous revenue was slightly under budget due to a payment from Sentara that was anticipated before June 30, but was not received until July.

Norfolk Community Services Board

Management's Discussion and Analysis

Cash expenditures, especially those related to payroll, were considerably lower than budget. Payroll expenditures were 6% or \$835,434 lower than projected. Of this reduced payroll expense, \$608,247 was turn-over savings that were anticipated in advance and included as part of the mid-year budget revision. The remaining variance was due to positions that were not filled as planned in FY 06. A slight overage in materials and supplies of \$24,896 or 5% was more than offset by a reduction in general operating expenses of \$231,729 or 6%. The decrease in operating expense was largely attributable to a large decrease in service expenditures when compared to the original or revised budgets. Equipment expenditures were \$53,918 or 33% less than budget due to the late delivery of two vehicles that the Board anticipated would be delivered in June. Materials and supply expense of \$17,642 for electric service and operating expense of \$309,046 for rent were transferred in at year-end. These expenditures are related to the Shelter Plus grant and were never budgeted. Therefore, Shelter Plus grant activity is not included in the budget to actual analysis. The general relief item was \$38,415 over budget by year end. Components of this budget variance are approximately \$30,000 related to unexpected housing expenditures, and approximately \$13,000 representing a write-off of prior year MR waiver environmental modification billings to the Department of Medical Assistance. General relief expenditures are designated for support of client's daily living needs and include vendor payments for direct client medical, living, and transportation needs.

CAPITAL ASSETS

Table 4

Change in Capital Assets

	Balance June 30, 2005	Additions	Deletions	Balance June 30, 2006
Capital assets:				
Leasehold improvements	\$ 144,603	\$ -	\$ -	\$ 144,603
Equipment	446,033	8,182	(2,900)	451,315
Vehicles	880,509	44,164	-	924,673
Totals	1,471,145	52,346	(2,900)	1,520,591
Less accumulated depreciation:				
Leasehold improvements	47,331	9,640	-	56,971
Equipment	345,140	40,522	(2,900)	382,762
Vehicles	566,283	59,785	-	626,068
Totals	958,754	109,947	(2,900)	1,065,801
Capital assets, net	\$ 512,391	\$ (57,601)	\$ -	\$ 454,790

Norfolk Community Services Board

Management's Discussion and Analysis

During fiscal year ending June 30, 2006, a commercial freezer was replaced for the Hospitality Center and three new vehicles were delivered. The disposition shown above represents the book value of the freezer that was disposed of. The new vehicles will be placed in service in July at which time the older vehicles will be removed from inventory. Board management expects the nature of equipment purchases to change significantly as the mobile technology feature of the proposed Behavioral Healthcare Information System (BHIS) that enables data entry to migrate from a office based to a field based environment. For example, expansion of field-based operations would change the nature and quantity of vehicle and personal computer needs. The vendor selection process will be completed in FY 07 and will determine capital equipment needs to support the upcoming BHIS. As in past years, the Board continued to upgrade non-capital personal computer and network infrastructure during FY 06. Two major property leases will expire during FY 08. The Board is actively developing a facility plan that would leverage the efficiency and effectiveness of the proposed behavioral healthcare information system and electronic medical record.

ECONOMIC FACTORS

Overall, FY 06 income from federal and unrestricted state sources remained flat. The State continues several initiatives which began in FY 04 designed to transfer care of state facility clients to the community. Collectively, these programs are called "Reinvestment", "Diversion", and "Transformation". The Norfolk CSB supports these initiatives which provide the least restrictive care to clients in need of services. The Reinvestment plan requires the local Community Service Boards to coordinate care for this client population after they re-enter the community. The Diversion plan is designed to divert admissions into hospitals through more intensive community treatment. Minimal funding was made available to support these initiatives. In FY 06, the Norfolk CSB began to serve as fiscal agent for the Regional Discharge Assistance Program which is one of these initiatives. As fiscal agent, the Norfolk CSB distributes restricted state revenue to other Boards pursuant to services delivered per client specific individual service plans.

The Norfolk CSB remains concerned over potential changes to the Medicaid system at large, including potentials for reductions in reimbursement rates, limitations to covered services under SPO (State Plan Options) and proposals to allow non-profit and private entities to provide and bill for case management services. Reimbursement for case management services is currently limited to CSB's. The Norfolk CSB's reliance of Medicaid SPO funding continues to expand with the transfer of former state general fund revenue to Medicaid SPO revenue through the FY 06 reimbursement rate increase. In FY 06, the Norfolk CSB received approximately \$4.9 million in Medicaid fees or 24% of total revenue and an increase of 28% over FY 05.

An increased dependence in fee revenue poses both threats and opportunities. Changes to the Medicaid SPO system pose a significant threat. Unlike state general funds and federal block grants, all fee revenue must be earned through performance. Privatization would impose competitive pressures to Norfolk CSB productivity and reimbursement. Some opportunities have already been demonstrated through the marked increase in fee for service based revenue realized by the Norfolk CSB during FY 06. This increase demonstrates that reductions in restricted state and federal revenue sources can be offset by improvements in billing efficiency and program performance. The application of best practices, automated clinical systems, leverage of billable services, and continued performance improvements will be employed to meet the challenges of privatization and government funding shortfalls to compete effectively in an open market.

Norfolk Community Services Board

Management's Discussion and Analysis

STRATEGIC PLAN

In FY 04, at the direction of the Board of Directors and with the input from staff, the community and clients, the Norfolk CSB adopted a comprehensive strategic plan. The strategic plan coordinates internal and external resources to expand and enhance a variety of services, improve revenue and operations, generate efficiencies through process automation, and execute site and facilities development plans. A copy of the strategic plan can be obtained by contacting the Board's Executive Director. Elements of the Strategic Plan that impacted FY 06 operations included budgeting for several new programs and continued improvements in information systems infrastructure. Major elements of the strategic plan that may impact FY 07 operations are the purchase of the BHIS system, acquiring administrative and service facilities, increasing operating efficiencies, maximizing fee revenue, opening new programs, and continued program evaluation. Some strategic plan elements such as real estate purchases necessary to expand services may require the Board to assume a debt burden.

CONTACTING THE BOARD'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, clients, and taxpayers with a general overview of the Board's finances and to demonstrate the Board's accountability for the money it receives. Questions concerning this report or requests for additional financial information should be made directly to Suzanne Williams, Financial Officer, 248 West Bute Street, Norfolk, VA 23510, telephone (757) 441-5300.

Norfolk Community Services Board

Statement of Net Assets

June 30, 2006

Assets

Current Assets	
Cash and cash equivalents	\$ 3,996,137
Investments	3,632,032
Accounts receivable:	
Medicaid and clients, net of allowance	
for doubtful accounts of \$41,873	471,712
Grants and contracts	210,776
Due from the City of Norfolk	25,993
Interest receivable	11,941
Prepaid expenses	45,652
Total current assets	8,394,243
Capital Assets, less accumulated depreciation of \$1,065,801	454,790
Other Assets	
Cash held for escrow, restricted	5,260
Total assets	8,854,293

Liabilities

Current Liabilities	
Accounts payable	296,637
Accrued payroll and related taxes	350,328
Accrued pension contribution	874,932
Accrued vacation and related taxes	613,272
Deferred revenue	24,795
Other liabilities	24,852
Total current liabilities	2,184,816
Noncurrent Liabilities	
Due to escrow	5,260
Accrued vacation and related taxes	233,256
Total liabilities	2,423,332

Commitments and contingencies (Notes 6, 7 and 9)

Net Assets

Invested in capital assets	454,790
Restricted for other uses	285,077
Unrestricted	5,691,094
Total net assets	\$ 6,430,961

See Notes to Financial Statements.

Norfolk Community Services Board

Statement of Revenues, Expenses and Changes in Net Assets
Year Ended June 30, 2006

Revenues:	
Net client fees and insurance reimbursements	\$ 5,913,326
Appropriations from the Commonwealth of Virginia	7,846,688
Appropriations from the Federal Government	2,947,343
Contract revenue	502,616
Total revenues	17,209,973
Expenses:	
Personnel	13,818,499
Operating costs	502,802
Services	4,017,007
Equipment	55,705
Bad debt expense	12,843
Depreciation	109,947
General relief	428,953
Total expenses	18,945,756
Operating loss	(1,735,783)
Nonoperating income:	
Investment income	255,257
Interest income	568
Other	20,109
Appropriations from City of Norfolk	2,775,800
	3,051,734
Change in net assets	1,315,951
Net assets:	
Beginning	5,115,010
Ending	\$ 6,430,961

See Notes to Financial Statements.

Norfolk Community Services Board

Statement of Cash Flows
Year Ended June 30, 2006

Cash Flows From Operating Activities	
Cash received from clients	\$ 5,789,313
Cash received from contractors	680,813
Cash paid to employees	(13,619,108)
Cash paid to suppliers for goods and services	(5,092,042)
State revenue	7,870,863
Federal revenue	2,921,350
Cash paid to other sources	(12,843)
Net cash used in operating activities	(1,461,654)
Cash Flows From Noncapital Financing Activities	
Appropriations from local government	2,775,800
Nonoperating miscellaneous income	20,109
Net cash provided by noncapital financing activities	2,795,909
Cash Flows Used In Capital and Related Financing Activities	
Purchase of capital assets	(52,346)
Cash Flows From Investing Activities	
Receipts of interest and dividends	297,952
Proceeds from sale of investments	1,129,983
Payments for investments	(1,057,931)
Net cash provided by investing activities	370,004
Net increase in cash and cash equivalents	1,651,913
Cash and cash equivalents:	
Beginning	2,349,484
Ending	\$ 4,001,397

(Continued)

Norfolk Community Services Board

Statement of Cash Flows (Continued)
Year Ended June 30, 2006

Supplemental Disclosures of Cash Flow Information

Noncash transactions:

Net decrease in fair value of investments	\$ 42,217
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Accrued interest on investments	\$ 11,941
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Reconciliation of Operating Loss to Net Cash

Used In Operating Activities

Operating Loss	\$ (1,735,783)
----------------	----------------

Adjustments to reconcile operating loss to net cash

used in operating activities:

Depreciation and amortization	109,947
-------------------------------	---------

Allowance for uncollectible accounts	(20,445)
--------------------------------------	----------

Bad debt expense	12,843
------------------	--------

Changes in assets and liabilities:

(Increase) decrease in:

Accounts receivable	(118,834)
---------------------	-----------

Grants and contracts	178,197
----------------------	---------

Prepaid expenses	5,944
------------------	-------

Due from other governments	(25,993)
----------------------------	----------

Increase (decrease) in:

Accounts payable and accrued expenses	30,247
---------------------------------------	--------

Deferred revenue	24,175
------------------	--------

Accrued pension	77,107
-----------------	--------

Other liabilities	941
-------------------	-----

Net cash used in operating activities	\$ (1,461,654)
--	-----------------------

Reconciliation of Cash and Cash Equivalents
to the Statement of Net Assets

Cash and cash equivalents	\$ 3,996,137
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Cash held for escrow, restricted	5,260
----------------------------------	-------

Total cash and cash equivalents	\$ 4,001,397
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See Notes to Financial Statements.

Norfolk Community Services Board

Statement of Fiduciary Net Assets
June 30, 2006

	Agency Funds
Assets	
Cash and cash equivalents	<u>\$ 589,843</u>
Liabilities	
Assets held in trust for other Community Service Boards	<u>\$ 589,843</u>

See Notes to Financial Statements.

Norfolk Community Services Board

Notes to Financial Statements

Note 1. Reporting Entity

The Norfolk Community Services Board ("CSB") was created in 1969 by a resolution of the City of Norfolk and was designated as an Operating Community Services Board in 1998 by a resolution of the City of Norfolk. It is empowered by Chapters 10 and 11 of the Code of Virginia to provide mental health, mental retardation, and substance abuse services to residents of the City of Norfolk ("City"). The CSB is established under mandate of the State and follows the City rules and regulations for its financial, personnel management, and purchasing activities. The CSB carries out its roles and responsibilities under the Operating Board type of structure as outlined in the Code of Virginia. The CSB uses the City as its fiscal agent to provide administrative support in these areas. For reporting purposes at the City level, the operations of the CSB are included as a discretely presented component unit of the City. The CSB Board of Directors is composed of a maximum of 15 members appointed by City Council.

Note 2. Summary of Significant Accounting Policies

Basis of presentation: The financial statements of Norfolk Community Services Board have been prepared on the accrual basis of accounting as required by generally accepted accounting principles for special-purpose governments engaged only in business-type activities under Governmental Accounting Standards Board ("GASB") Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*. Fiduciary fund information is reported separately from that of business-type activities.

Measurement focus and basis of accounting: The financial statements are presented on the economic resources measurement focus and the accrual basis of accounting, wherein revenues are recognized when earned and expenses are recognized when incurred. In accordance with GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, management has elected not to apply FASB pronouncements issued after November 30, 1989.

Budgets and budgetary accounting: The CSB's annual budget is a management tool that assists users in analyzing financial activity for its fiscal year ending June 30. The CSB's largest funding source is from the State of Virginia. Federal, local, contract and fee-for-service payments comprise the remaining major revenue sources. Some federal programs have periods that may or may not coincide with the CSB's fiscal year. These appropriations normally are for a twelve-month period; however, they can be awarded for periods shorter or longer than twelve months.

Because of the CSB's dependence on uncertain fee revenues and other federal, state, and local budgetary decisions, revenue estimates are based upon the best available information as to potential sources of funding.

The resultant annual budget is subject to change within the fiscal year due to:

- The extent to which fee revenues are realized;
- Increases/decreases in actual appropriation from those estimated;
- Unanticipated appropriations not included in the budget;
- Expected appropriations that fail to materialize; and
- Reductions in expenditures due to savings and accruals from staff turnover and cost saving measures.

The Board of Directors formally approves the annual budget and any major budget revisions.

Norfolk Community Services Board

Notes to Financial Statements

Note 2. Summary of Significant Accounting Policies (Continued)

Fiscal agent: The City of Norfolk serves as the CSB's fiscal agent. All state and federal revenue is received directly by the City. Client paid fee revenue is initially deposited into a fee collection account maintained by the CSB then transferred to the City by the end of the following month. Interest earnings are allocated to the CSB by the City on pooled funds.

Cash and cash equivalents: Cash and cash equivalents include cash on hand, checking and savings accounts, and short-term, highly liquid investments with original maturities of three months or less. Such investments are valued at cost which approximates market.

Investments: The CSB reports investments at fair value. Investment income includes both realized and unrealized gain and loss components.

Accounts receivable: The CSB records accounts receivable at total unpaid balance, which approximates estimated fair value, less allowances for doubtful accounts. The CSB determines past due status of individual accounts receivable based on the contractual terms of the grant agreement or service provided and does not normally charge interest on overdue accounts once they are considered by the CSB to be greater than 60 days past due. The CSB creates a full allowance for client fees that are over 60 days past due and a partial allowance for current client receivables. For third party payors, the CSB maintains an allowance for receivables appropriate for each payor's reimbursement guidelines. Accounts receivable that management believes to be ultimately not collectible are written off upon such determination.

Capital assets: Capital assets are stated at cost. The threshold for asset capitalization is \$2,000. Assets are depreciated over their estimated useful lives using the straight-line method of depreciation. Effective July 1, 2003, the estimated useful lives for newly acquired property and equipment are as follows:

	Years
Leasehold improvements	15
Equipment	5
Vehicles	7

Leasehold improvements are amortized over the shorter of the asset's estimated useful life or the applicable lease term. Amortization expense is included in depreciation expense on the statement of revenues, expenses and changes in net assets.

Notes to Financial Statements

Note 2. Summary of Significant Accounting Policies (Continued)

The CSB evaluates prominent events or changes in circumstances affecting capital assets to determine whether impairment of a capital asset has occurred. A capital asset is generally considered impaired if both (a) the decline in service utility of the capital asset is large in magnitude and (b) the event or change in circumstance is outside the normal life cycle of the capital asset. Impaired capital assets that will no longer be used by the government are reported at the lower of carrying value or fair value. Impairment losses on capital assets that will continue to be used by the government are measured using the method that best reflects the diminished service utility of the capital asset. Any insurance recoveries received as a result of impairment events or changes in circumstances resulting in the impairment of a capital asset are netted against the impairment loss.

Net assets: Net assets (i.e. assets less liabilities) are classified as invested in capital assets, net of any related (capital) debt; restricted; and unrestricted. Restricted net assets represent constraints on resources that are either externally imposed by creditors, grantors, contributors, or laws or regulation of other governments or imposed by law through state statute.

Operating and nonoperating revenues and expenses: The CSB reports as operating (program) revenues net client fees and insurance reimbursements, appropriations, reimbursements and grants from the Commonwealth of Virginia and the Federal Government, and other miscellaneous operating revenues. Nonoperating revenues consist primarily of investment income and the local appropriation from the City of Norfolk. The CSB reports as operating expenses those costs, such as salaries for personnel, other operating costs, contractual services for outside contractors and depreciation expense.

Taxes: As a political subdivision of the Commonwealth of Virginia, the CSB is exempt from sales and meal taxes and federal and state income taxes. The CSB is not exempt from hotel and real estate taxes.

Agency funds: Agency funds are custodial in nature and do not present results of operations or have a measurement focus. The Agency funds consist of the assets and liabilities of several organizations for which the CSB serves as a fiscal agent.

Estimates: The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates and assumptions.

Note 3. Cash and Investments

Deposits: All cash of the CSB is maintained in accounts collateralized in accordance with the Virginia Security for Public Deposits Act, Section 2.2-4400 et. seq. of the Code of Virginia or covered by federal depository insurance. Under the Act, banks holding public deposits in excess of the amounts insured by FDIC must pledge collateral in the amount of 50% of the excess deposits to a collateral pool in the name of the State Treasury Board. Savings and loans institutions are required to collateralize 100% of the deposits in excess of the FDIC limits. The State Treasury Board is responsible for monitoring compliance with the collateralization and reporting requirements of the Act and for notifying local governments of compliance by banks and savings and loans. Cash deposits of the CSB are managed by the City of Norfolk. All cash held by the City is fully insured or collateralized.

Norfolk Community Services Board

Notes to Financial Statements

Note 3. Cash and Investments (Continued)

Investments: Statutes authorize the CSB to invest in obligations of the United States or agencies thereof, obligations of the Commonwealth of Virginia or political subdivisions thereof, obligations of the International Bank for Reconstruction and Development ("World Bank") and Asian Development Bank, the African Development Bank, commercial paper rated A-1 by Standard and Poor's or P-1 by Moody's Commercial Paper Record, banker's acceptances, repurchase agreements, and the State Treasurer's Local Government Investment Pool ("LGIP"), certain mutual funds, corporate notes, asset-backed securities, and savings accounts or time deposits.

The CSB's investments are categorized below to give an indication of the level of interest rate risk for each investment type by the entity at year-end. Included in CSB's investments on the statement of net assets are \$624,808 of certificates of deposits. The deposits matured at a date later than three months after year-end and therefore did not meet the definition of cash and cash equivalents.

Investment Type	Fair Value	Less Than 1 year	1-5 years	6-10 years	10+ years
Mutual funds	\$ 59,516	\$ 59,516	\$ -	\$ -	\$ -
Commercial bonds	1,250,000	1,250,000	-	-	-
U.S. Government securities	1,697,708	347,016	1,017,547	168,404	164,741
Total	\$ 3,007,224	\$ 1,656,532	\$ 1,017,547	\$ 168,404	\$ 164,741

The Funds rated debt investments as of June 30, 2006 were rated by Standard and Poor's and the ratings are presented below using the Standard and Poor's rating scale.

Investment Type	AAA	Unrated	Total
Mutual funds	\$ -	\$ 59,516	\$ 59,516
Commercial bonds	1,250,000	-	1,250,000
U.S. Government securities	1,697,708	-	1,697,708
Total	\$ 2,947,708	\$ 59,516	\$ 3,007,224

Custodial credit risk: For an investment, the custodial risk is the risk that in the event of the failure of the counterparty, the CSB will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. Mutual funds are not considered to have custodial credit risk. The CSB's investments in U. S. Government securities and commercial bonds are uninsured and unregistered investments for which the securities are held by the counterparty in the CSB's name.

Concentration of credit risk: The CSB has more than 5% of their investments in Cohen & Steers Advantage, Easton Vance Senior, ING, Nuveen Income Fund, and Pioneer High Income Trust commercial bonds. Each of these investments are 8.3% of the CSB's total investments.

The CSB has no policy regarding credit risk, interest rate risk, concentration of credit risk, custodial credit risk, or foreign investment risk.

Norfolk Community Services Board

Notes to Financial Statements

Note 4. Capital Assets

Description	Balance June 30, 2005	Additions	Deletions	Balance June 30, 2006
Leasehold improvements	\$ 144,603	\$ -	\$ -	\$ 144,603
Equipment	446,033	8,182	2,900	451,315
Vehicles	880,509	44,164	-	924,673
Total	1,471,145	52,346	2,900	1,520,591
Accumulated depreciation:				
Leasehold improvements	47,331	9,640	-	56,971
Equipment	345,140	40,522	2,900	382,762
Vehicles	566,283	59,785	-	626,068
Total	958,754	109,947	2,900	1,065,801
	\$ 512,391	\$ (57,601)	\$ -	\$ 454,790

Note 5. Compensated Absences

Norfolk Community Services Board employees are entitled to certain compensated absences based on their accrued leave balance. Upon termination, employees may be paid up to a maximum of 384 hours of vacation (leave) at their normal pay rate. Upon termination, employees are not paid for their accumulated sick leave. As of June 30, 2006, the CSB accrued \$846,528 for compensated absences. This amount is reflected in the statement of net assets under current liabilities - accrued vacation and related taxes of \$613,272 and long-term liabilities of \$233,256.

Annual leave balances in excess of the cap limit will be forfeited if the employee leaves or retires. Employees who retire from service and meet certain eligibility requirements are entitled to, in addition to their defined contribution pension, a portion of their sick-leave balance. As few employees are at retirement age, the effect of this expense is considered immaterial and has not been accrued.

	Balance June 30, 2005	Additions	Deletions	June 30, 2006	Balance Due Within One Year
Vested compensated absences	\$ 747,958	\$ 711,842	\$ 613,272	\$ 846,528	\$ 613,272

Note 6. Defined Contribution Pension Plan

Norfolk Community Services Board contributes to a defined contribution pension plan administered by Met Life, Inc. A defined contribution plan provides pension benefits in return for services rendered, provides an individual account for each participant, and specifies how contributions to the individual's account are to be determined instead of specifying the amount of the benefits the individual is to receive. Under a defined contribution pension plan, the benefits a participant will receive depends solely on the amount contributed to the participant's account and the returns earned on investments, as selected by the participant, of those contributions.

Norfolk Community Services Board

Notes to Financial Statements

Note 6. Defined Contribution Pension Plan (Continued)

As established by the plan, enrolled permanent, full-time employees of Norfolk Community Services Board and those part-time permanent employees accumulating more than 1,000 hours of service in the plan year are eligible to participate.

For the fiscal year ended June 30, 2006, the CSB contributed approximately 10% of the employee's gross earnings to the plan for each eligible employee. Eligible employees are enrolled in the plan after one year of service. Participating employees are vested at 100% after five years of service. Based on enrollment date, proportionate contributions are made for employees with partial plan year eligibility.

During the year ended June 30, 2006, the CSB's defined contribution, related to fiscal year 2005, was \$890,386 of which \$100,000 was covered by forfeitures that were applied to this contribution. The accrued liability associated with the fiscal year 2006 contribution is \$974,932 reduced by expected forfeitures of \$100,000 for a net accrual of \$874,932 which will be paid in fiscal year 2007.

Note 7. Contingent Liabilities

Federal programs in which the CSB participates were audited in accordance with the provisions of U. S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations and the Single Audit Act of 1996*. Pursuant to these provisions, all major programs and certain other programs were tested for compliance with all applicable grant requirements. While no matters of noncompliance were disclosed by audit, the Federal Government may subject grant programs to additional compliance testing, which may result in disallowed expenditures. In the opinion of management, any future disallowances of current grant program expenditures, if any, cannot be determined at this time.

Note 8. Risk Management

The CSB is exposed to various risks of loss related to: theft of, damage to, and destruction of assets; injuries to employees; general liability; automobile liability; crime and employee dishonesty; professional liability; and directors and officers' liability.

During fiscal year ended June 30, 2006, the CSB was covered against these potential losses by commercial insurance carriers. In the case of board member liability, additional coverage is provided through the City of Norfolk's self-insurance program.

Norfolk Community Services Board

Notes to Financial Statements

Note 9. Operating Leases

The Board leases offices and clinics under various lease agreements. Lease expense for the year ended June 30, 2006 was \$1,299,571. At June 30, 2006, the approximate annual operating lease commitments are as follows:

Year Ending June 30,	Amount
2007	\$ 984,761
2008	709,191
2009	642,944
2010	654,089
2011	673,293
	<u>\$ 3,664,278</u>

Note 10. Restricted Assets

The CSB segregates monies held on behalf of a client-sponsored activity fund for which the CSB has a fiduciary responsibility to manage. At year-end, these funds have not yet been totally expended for their intended purposes.

Note 11. Major Customers

The Virginia Medicaid Program provides for reimbursement, on a prospective basis. Medicare reimbursement is based on allowable costs, subject to routine service limitation, on a prospective basis. The CSB received approximately \$4,900,000 or 24% of its revenue from operations in the form of Medicaid revenue reimbursements. The Virginia Medicaid Program owes the CSB approximately \$472,000 at June 30, 2006.

Note 12. Residential Options

Residential Options, Inc. ("ROI") is a not-for-profit organization exempt from income tax under Section 501 (c) 3 of the U.S. Internal Revenue Code. In accordance with the ROI charter, the ROI Board and the CSB's Board have one member in common. ROI owns property at which the Norfolk CSB provides mental health residential services for City residents. A letter of agreement between ROI and the CSB describes the relationship between the two entities. ROI is legally separate from the CSB and produces separate financial statements. The CSB has considered ROI a related organization for fiscal year ended June 30, 2006 per GASB Statement No. 14, *The Financial Reporting Entity*, as amended by GASB Statement No. 39, *Determining Whether Certain Organizations are Component Units*.

Notes to Financial Statements

Note 13. Accounting Pronouncements Issued But Not Yet Implemented

The GASB has issued several pronouncements prior to June 30, 2006 that have effective dates that may impact future financial presentations.

Management has not currently determined what, if any, impact implementation of the following statements may have on the financial statement of the CSB.

- GASB Statement 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. This statement establishes standards for the measurement, recognition and display of expenses/expenditures and related liabilities (assets), note disclosures and if applicable, required supplementary information in the financial reports of state and local government employers on other post employment benefits ("OPEB"). The CSB is required to adopt this statement in the same year as the City of Norfolk.
- GASB Statement 47, *Accounting for Termination Benefits*. This statement requires financial statement prepared on the accrual basis of accounting to recognize a liability and expense for voluntary termination benefits when the offer is accepted and the amount can be estimated. A liability and expense for involuntary termination benefits should be recognized when a plan of termination has been approved by those with the authority to commit the entity to the plan, the plan has been communicated to employees, and the amount can be estimated. The CSB is required to adopt the OPEB portions of this statement the same time it adopts GASB Statement 45 mentioned above.
- GASB Statement 48, *Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues*. This Statement establishes criteria that governments will use to ascertain whether the proceeds received should be reported as revenue or as a liability. The criteria should be used to determine the extent to which a transferor government either retains or relinquishes control over the receivables or future revenues through its continuing involvement with those receivables or future revenues. This Statement establishes that a transaction will be reported as a collateralized borrowing unless the criteria indicating that a sale has taken place are met. If it is determined that a transaction involving *receivables* should be reported as a sale, the difference between the carrying value of the receivables and the proceeds should be recognized in the period of the sale in the change statements. If it is determined that a transaction involving future revenues should be reported as a sale, the revenue should be deferred and amortized, except when specific criteria are met. This Statement also provides additional guidance for sales of receivables and future revenues within the same financial reporting entity.

This Statement includes a provision that stipulates that governments should not revalue assets that are transferred between financial reporting entity components. Therefore, any assets (or future revenues) sold or donated within the same financial reporting entity should continue to be reported at their current carrying value when those assets or future revenues are transferred.

This Statement also includes guidance to be used for recognizing other assets and liabilities arising from a sale of specific receivables or future revenues, including residual interests and recourse provisions. The disclosures pertaining to future revenues that have been pledged or sold are intended to provide financial statement users with information about which revenues will be unavailable for other purposes and how long they will continue to be so. The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2006.

Norfolk Community Services Board

Combining Statement of Changes in Assets and Liabilities - All Agency Funds
Year Ended June 30, 2006

	Balance July 1, 2005	Additions	Deductions	Balance June 30, 2006
<hr/>				
Regional Discharge Assistance				
Assets:				
Cash	\$ -	\$ 1,065,700	\$ 505,840	\$ 559,860
	<hr/>			
Liabilities:				
Due to other entity	\$ -	\$ 1,065,700	\$ 505,840	\$ 559,860
	<hr/>			
Norfolk Drug Court Fees				
Assets:				
Cash	\$ -	\$ 29,983	\$ -	\$ 29,983
	<hr/>			
Liabilities:				
Due to other entity	\$ -	\$ 29,983	\$ -	\$ 29,983
	<hr/>			
Regional DAP				
Assets:				
Cash	\$ -	\$ 107,723	\$ 107,723	\$ -
	<hr/>			
Liabilities:				
Due to other entity	\$ -	\$ 107,723	\$ 107,723	\$ -
	<hr/>			
Totals, all agency funds				
Assets:				
Cash	\$ -	\$ 1,203,406	\$ 613,563	\$ 589,843
	<hr/> <hr/>			
Liabilities:				
Due to other entity	\$ -	\$ 1,203,406	\$ 613,563	\$ 589,843
	<hr/> <hr/>			

Norfolk Community Services Board

Schedule of Expenditures of Federal Awards
Year Ended June 30, 2006

Federal Grants	Federal CFDA No.	Federal Expenditures
Department of Health and Human Services:		
Passed-through Virginia Department of Mental Health, Mental Retardation, and Substance Abuse Services:		
Projects for Assistance in Transition to Homeless (PATH)	93.150	\$ 80,543
Mental Health Emergency Preparedness & Response	93.003	10,000
Mental Health Federal Block Grant	93.958	144,458
Substance Abuse Federal Block Grant	93.959	1,916,441
Department of Education:		
Passed-through Department of Mental Health, Mental Retardation, and Substance Abuse Services:		
Infant Early Intervention (NICER)	84.181	320,801
Department of HUD:		
Shelter Plus Care Grant	14.238	352,681
Special Needs Assistance (SPC Support)	14.235	122,419
Total		\$ 2,947,343

See Notes to Schedule of Expenditures of Federal Awards.

Norfolk Community Services Board

Notes to Schedule of Expenditures of Federal Awards Year Ended June 30, 2006

Note 1. General

The above schedule of expenditures of federal awards presents the activity of all federal award programs of the Norfolk Community Services Board ("CSB"). This schedule is presented in accordance with the requirement of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations.

Note 2. Basis of Accounting

The accompanying schedule of expenditures of federal awards is presented using the modified accrual basis of accounting.

Norfolk Community Services Board

Reconciliation of Federal Revenues Per Audit to the Fourth Quarter State Report Year Ended June 30, 2006

	Federal Revenues
Revenues, fourth quarter state report summary dated October 2, 2006	\$ 2,164,183
Adjustments:	
Applied MH retained earnings from fiscal year 2005	(12,741)
On-going Early Intervention revenue	320,801
HUD revenue for supported housing program	122,419
HUD Shelter Plus Care program	352,681
Total federal expenditures per audit report	\$ 2,947,343

Norfolk Community Services Board

Reconciliation of Revenues and Expenses Per Audit to the Fourth Quarter State Report (Unaudited) Year Ended June 30, 2006

	Fees	State	Federal	City	Contract/ Miscellaneous	Total
Revenues:						
Fourth quarter state report summary dated October 2, 2006	\$ 5,793,799	\$ 8,164,238	\$ 2,164,183	\$ 2,775,800	\$ 984,837	\$ 19,882,857
Accruals and adjustments:						
Non-operating revenue	-	-	-	-	520	520
Regional funds held in trust	-	(447,609)	-	-	-	(447,609)
Fiscal Year 2005 clinical trials revenue	-	-	-	-	140,343	140,343
Early Intervention revenue	-	130,659	320,801	-	(451,460)	-
Change in accounts receivable	119,527	(600)	16,367	-	(66,122)	69,172
HUD revenue	-	-	458,733	-	-	458,733
Interest in revenue	-	-	-	-	298,042	298,042
Deferred revenue	-	-	(12,741)	-	(85,393)	(98,134)
Unrealized loss on investments	-	-	-	-	(42,217)	(42,217)
Total revenues per audit report	\$ 5,913,326	\$ 7,846,688	\$ 2,947,343	\$ 2,775,800	\$ 778,550	\$ 20,261,707

	MH	MR	SA	Admin	Non-Op	Total
Expenses:						
Expenses, fourth quarter state report summary dated October 2, 2006	\$ 9,538,730	\$ 2,860,635	\$ 5,853,107	\$ -	\$ -	\$ 18,252,472
Accruals and adjustments:						
Allocated support services	(1,306,847)	(415,675)	(679,434)	2,401,956	-	-
HUD expense not reported to State	-	-	-	-	432,743	432,743
Prepaid expense	-	-	-	-	5,944	5,944
Depreciation expense	-	-	-	-	109,948	109,948
Asset capitalization	-	-	-	-	(54,836)	(54,836)
Pension accruals	-	-	-	-	77,107	77,107
Other non-operating	-	-	-	-	(1,388)	(1,388)
Vacation accrual	-	-	-	-	106,111	106,111
Salary/FICA accrual	-	-	-	-	17,655	17,655
Total expenses per audit report	\$ 8,231,883	\$ 2,444,960	\$ 5,173,673	\$ 2,401,956	\$ 693,284	\$ 18,945,756

NORFOLK COMMUNITY SERVICES BOARD

STANDARD SCHEDULE OF INSURANCE (UNAUDITED)
YEAR ENDED JUNE 30, 2006

Insurance Coverage	Ins. Co. / Agent/ Policy #	Policy Period	Limits of Liability	Ded.	Annual Premium
Automobile Liability Physical Damage	Co: Philadelphia Ag: Hilb, Rogal & Hamilton Pol. #PHPK136307	09/01/05- 08/31/2006	BI/PD \$ 1M Uninsured Motorist \$ 1M Medical Payments \$ 5K	Comp \$500 Coll \$1,000	\$78,589
Crime	Co: Philadelphia Ag: Hilb, Rogal & Hamilton Pol. #: PHPK136307	09/01/05- 08/31/2006	Employee Dishonesty \$200K Forgery or Alteration \$ 25K Money & Securities \$ 50K	\$2,500 \$250 \$250	\$1,053
Electronic Data Processing	Co: Philadelphia Ag: Hilb, Rogal & Hamilton Pol. #: PHPK136307	09/01/05- 08/31/2006	Hardware \$876,300 Software \$ 77K BI/EE \$ 175K Hardware in Transit \$ 75K	\$1,000	\$2,879
General Liability	Co: J J Negley Ag: Hilb, Rogal & Hamilton Pol. #: OPS0041489	09/01/05- 08/31/2006	Aggregate \$ 3M Occurrence \$ 1M Medical \$ 5K		\$94,803
Medical Malpractice	Co: J J Negley Ag: Hilb, Rogal & Hamilton Pol. #OPS0041489	09/01/05- 08/31/2006	Occurrence \$ 1.8M Aggregate \$ 3.6M	N/A	Included In \$94,803
Public Officials Liability D & O	Co: J J Negley Ag: Hilb, Rogal & Hamilton Pol. #OPS0041489	09/01/05- 08/31/2006	Occurrence Aggregate \$2M	\$2,500	Included In \$94,803
Property	Co: Philadelphia Ag: Hilb, Rogal & Hamilton Pol. #: PHPK136307	09/01/05- 08/31/2006	Real Property \$1,137,892 Personal Property Business Income \$175K	500 500	\$4,868
Umbrella/Excess	Co: J J Negley Ag: Hilb, Rogal & Hamilton Pol. #XLS0012077	09/01/05- 08/31/2006	Occurrence \$ 1M Aggregate \$ 1M	N/A	\$25,102
Workers Compensation	Co: American Interstate Ag: Hilb, Rogal & Hamilton Pol. #RAWCVA1415622005	09/09/05- 09/08/2006	Each Accident \$100K Policy Limit – Disease \$ 500K Each Employee- Disease \$100K Terrorism	N/A	\$48,733 Incl
Miscellaneous Coverage Flood	Co: Philadelphia Ag: Hilb, Rogal & Hamilton Pol. By Location	12/08/05- 12/07/2006	\$1,012,100	\$500	\$5,962 Total \$261,989

NORFOLK COMMUNITY SERVICES BOARD
FY 05 SCHEDULE OF LEASE OBLIGATIONS

	SITE	TERMS	FY 07 Total Rent	FY 08 Total Rent	FY 09 Total Rent	FY 10 Total Rent	FY 11 Total Rent
1	248 WEST BUTE STREET	\$13,156.00/month Escalation Clause: 3.25% beginning in Year #2 Lease Term: 9/24/97 to 9/23/07	209,426.39	53,202.90	-	-	-
	SITE	TERMS	FY 07 Total Rent	FY 08 Total Rent	FY 09 Total Rent	FY 10 Total Rent	FY 11 Total Rent
2	248 WEST BUTE ST PARKING (Rental of 28 Parking Spaces)	Escalation Clause: 3.25% Lease Term: 9/24/97 to 9/23/07 Correct escalation to \$56.00/mo Oct 1 of each year ADD: 4 spaces 2/01/06 to 9/30/07 @\$51 ea/mo	20,088.00	5,064.00	-	-	-
	SITE	TERMS	FY 07 Total Rent	FY 08 Total Rent	FY 09 Total Rent	FY 10 Total Rent	FY 11 Total Rent
3	ROLAND PARK CENTER	Escalation Clause: 5% in January of each year Lease Term: June 26, 1997 to July 26, 2007 Escalation currently suspended as of July 1, 2003 Current Lease Amount: 9884.92/month as of 7/1/2003 Lease Amount 10660.62/month as of 7/1/2005 Lease Amount 11081.50/month as of 7/1/2006	132,978.00	11,081.50	-	-	-
	SITE	TERMS	FY 07 Total Rent	FY 08 Total Rent	FY 09 Total Rent	FY 10 Total Rent	FY 11 Total Rent
4	TIDEWATER DRIVE CENTER 7460 and 7464 Tidewater Drive	Lease includes Janitorial and Maintenance Services Escalation Clause: 3% annual for base rent ; Janitorial serviced discontinued March 04 Maintenance services discontinued May 04 Lease Term: 6/1/01 to 5/31/16 Renovations added to lease: \$1,163.56/month No Escalation Clause TOTAL TIDEWATER DRIVE CENTER	346,607.17	357,005.38	367,715.55	378,747.01	390,109.42
			13,962.72	13,962.72	13,962.72	13,962.72	13,962.72
			\$360,569.89	\$370,968.10	381,678.27	392,709.73	404,072.14
	SITE	TERMS	FY 07 Total Rent	FY 08 Total Rent	FY 09 Total Rent	FY 10 Total Rent	FY 11 Total Rent
5	VIRGINIA BEACH BLVD CENTER	\$16,868.77/month Escalation Clause: 3% beginning in Year # 3 Lease Term: February 1, 2000 to January 31, 2015 Janitorial Svs to be added to lease: \$1,711.32/month - removed from lease 5/04 Escalation Clause: 3% every 3 years beg in Year 3 Lease Term: May 1, 2001 to end of lease TOTAL VIRGINIA BEACH BLVD CENTER	239,198.90	246,374.87	253,766.11	261,379.06	269,220.43
			-	-	-	-	-
			\$239,198.90	\$246,374.87	\$ 253,766.11	\$ 261,379.06	\$ 269,220.43
6	Various Locations	Five Leased Vehicles @ 382.91/mo/each 36 month lease beginning 07/01/03. Cancelled 10/31/05 Five Leased Vehicles @ 375.00/mo/ea 36 month lease beginning 11/08/05 TOTAL LEASE OBLIGATIONS	22,500.00	22,500.00	7,500.00		
			\$984,761.17	\$709,191.37	\$642,944.38	\$654,088.79	\$673,292.58

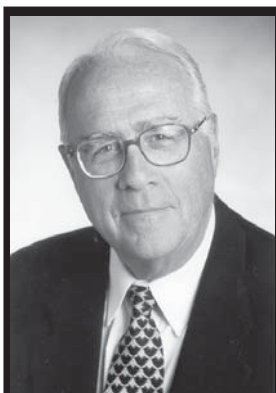
Norfolk Community Services Board 2006 Board of Trustees



Arthur S. Kaplan, M.D.

Joined the Board in August 1998 and became Board Chair on January 1, 2005. He is Chair of the Administration & Resources Committee.

He is a retired physician.



Russell D. Evett, M.D.

Joined the Board in May 2000 and became Vice Chair on January 1, 2005.

He is a retired physician.



Linda Horsey, Ed.D.

Joined the Board in July 2001 and became Treasurer on January 1, 2005.

She is an adjunct professor at Old Dominion University and Christopher Newport University and has been a counselor with The Therapy Cen-



Timothy A. Coyle

Joined the Board in July 2001 and became Secretary on January 1, 2005.

He is an attorney with Crenshaw, Ware & Martin. He is active in civic and community affairs.



Thomas S. Weaver

Joined the Board in October 1997 and was Board Chair from January 1, 2002 through December 31, 2004.

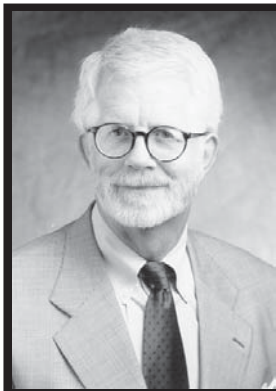
He is a retired Naval officer and college professor.



Martha C. Smith

Joined the Board in April 1997 and was Secretary from January 1999-December 2000.

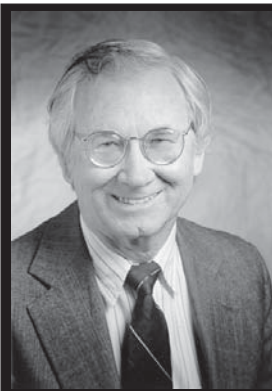
She is a long-time mental health advocate.



John J. O'Keefe, III

Joined the Board in April 1997 and is past Chair of the Community & Governmental Relations Committee.

He is a partner with Outland, Gray, O'Keefe & Hubbard and has been active in civic affairs.



Roger L. Frost, C.P.A.

Joined the Board in October 1997 and was Treasurer from December 1998 through December 2001.

He is a retired partner with the accounting firm of Goodman and Company.



Linda B. McCluney, Ph.D.

Joined the Board in February 2003. She previously served on the Board from 1987-1992, and was Board Chair from 1990-1992.

She is the Dean of Academic Affairs, Joint Forces Staff College.



Pamela Wright

Joined the Board in July 2004.

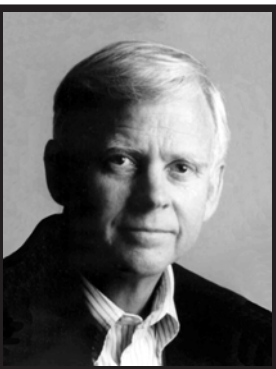
She is an active in the community and an advocate for persons with mental retardation, as well as those with mental health and substance addiction needs.



Dana Redding

Joined the Board in July 2004.

She is owner of Topical Beauty landscaping service and is an active member of the community.



Lewis J. Taylor, Ph.D.

Joined the Board in December 2004 and became Chair of the Community & Governmental Relations Committee in January 2006. He is a clinical psychologist in practice at Hampton Roads Behavioral Health, P.C., in Norfolk.

**This position
is unfilled
at this time**

**This position
is unfilled
at this time**

**This position
is unfilled
at this time**

Norfolk Community Services Board **Management Team**



George W. Pratt, Ed.D.
Executive Director

Appointed Executive Director in July 1996. Dr. Pratt was Director of Mental Health Services from 1990 until 1996, and served in several other positions since joining the Board in 1986. From 1974-1986 he was a tenured Associate Professor of Counseling at Old Dominion University.



Brenda B. Wise
Director of Administration

Joined Norfolk CSB in September 1973 and was appointed Director of Administration in September 1994. Prior to that she held various management positions in Board Administration. She oversees the day-to-day administrative operations of the Board.



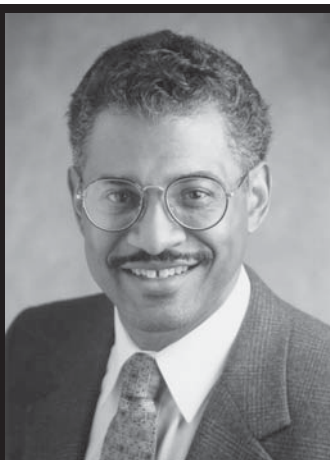
Martin W. Phillips, L.P.C.
Director
Mental Health Services

Appointed Director of Mental Health Services in September 1998, after having worked as Mental Health Director of Chesapeake CSB from 1993-1998. Previously worked for Norfolk CSB from 1988-1993 in increasingly responsible positions. Licensed Professional Counselor and Certified Clinical Mental Health Counselor.



Aileen L. Smith
Director
Mental Retardation and Family Development Services

Director of Mental Retardation and Family Development Services since November 2002; Director of Mental Retardation Services since August 1998. Obtained her Bachelor's Degree in Psychology in 1991 from Old Dominion University and her Master's Degree in Education in 1993.



Anthony D. Crisp
Director
Substance Abuse Services

Joined Norfolk CSB in September 1988 as Director of Substance Abuse Services. From 1980-1988, he was Executive Director of Peninsula Drug Rehabilitation Services. He has a Master's Degree in Community/Clinical Psychology and a Master's Degree in Business Administration.

**Photograph is not
available
at this time**

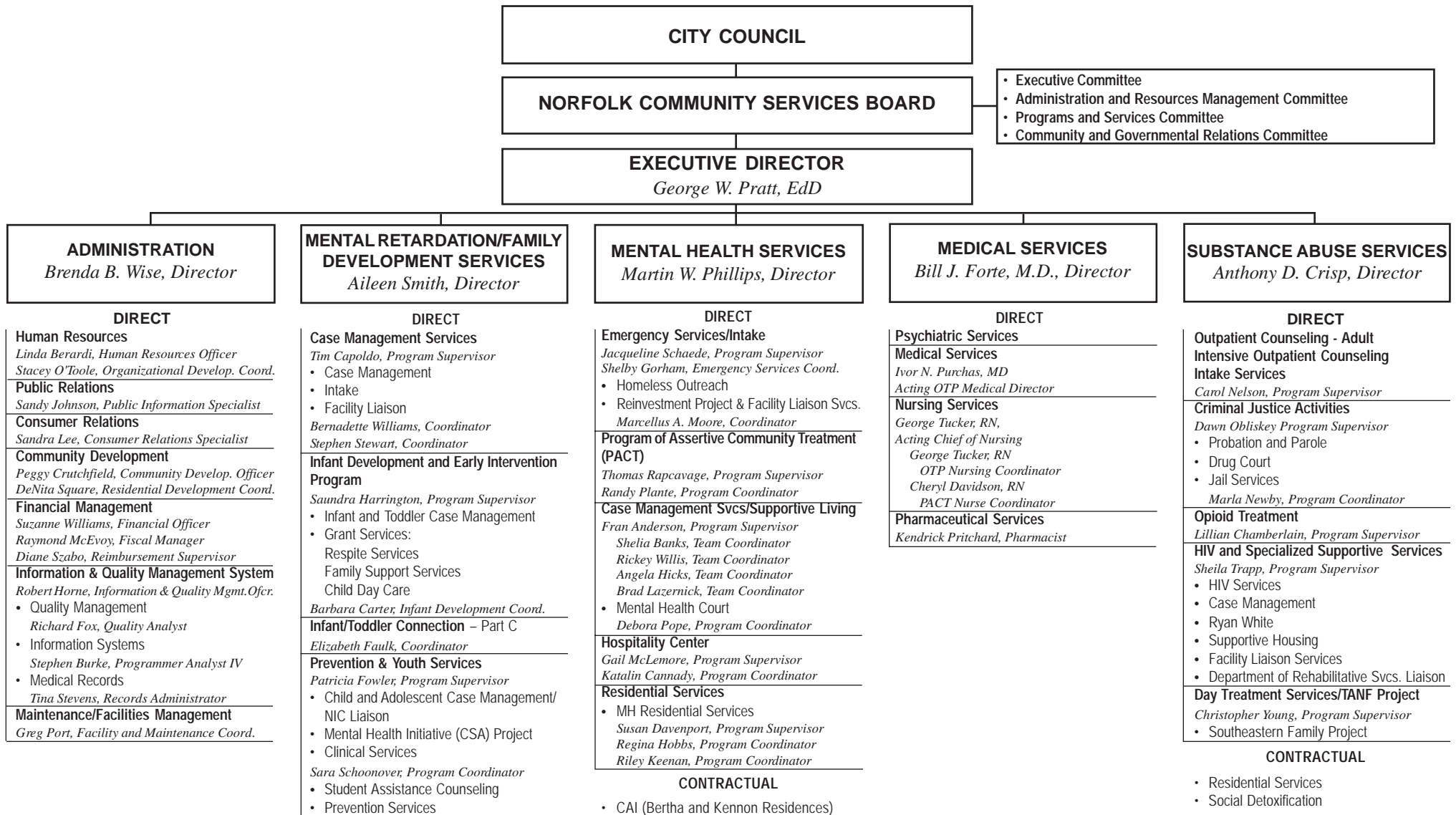
Bill J. Forte, M.D.
Director
Medical Services

Joined Norfolk CSB in July 2001 as the Medical Director for Mental Health Services. On December 1, 2005, he was named Director of the new Medical Services Division, encompassing all medical services provided by the Board including medical, psychiatric, pharmaceutical and nursing care.

NORFOLK COMMUNITY SERVICES BOARD

K:\PUBLIC RELATIONS ITEMS\Organizational Chart
SR\JOHNS H:\PM6\ORG\MSU FY2006 03/02/06

FISCAL YEAR 2006



- Executive Committee
- Administration and Resources Management Committee
- Programs and Services Committee
- Community and Governmental Relations Committee

* Norfolk Interagency Committee for Early Response (interagency planning for comprehensive early intervention services for developmentally delayed and at risk infants)

McGladrey & Pullen

Certified Public Accountants

**Independent Auditor's Report
on Internal Control Over Financial Reporting
and on Compliance and Other Matters Based
on an Audit of Financial Statements Performed
in Accordance With *Government Auditing Standards***

To the Board of Trustees
Norfolk Community Services Board
Norfolk, Virginia

We have audited the financial statements of the business-type activities and fiduciary fund information of the Norfolk Community Services Board (the "CSB") as of and for the year ended June 30, 2006, and have issued our report thereon dated August 25, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the CSB's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the CSB's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the Board of Trustees, management of the CSB, federal awarding agencies, and pass-through entities and is not intended to be, and should not be, used by anyone other than these specified parties.

McGladrey & Pullen, LLP

Greensboro, North Carolina
August 25, 2006

McGladrey & Pullen

Certified Public Accountants

Independent Auditor's Report on Compliance With Requirements Applicable to Each Major Program and Internal Control Over Compliance in Accordance With OMB Circular A-133

The Board of Trustees
Norfolk Community Services Board
Norfolk, Virginia

Compliance

We have audited the compliance of the Norfolk Community Services Board (the "CSB") with the types of compliance requirements described in the U. S. Office of Management and Budget ("OMB") *Circular A-133, Compliance Supplement* that are applicable to each of its major programs for the year ended June 30, 2006. The CSB's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the CSB's management. Our responsibility is to express an opinion on the CSB's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the CSB's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the CSB's compliance with those requirements.

In our opinion, the CSB complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2006.

Internal Control Over Compliance

Management of the CSB is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the CSB's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the Board of Trustees, management of the CSB, federal awarding agencies, and pass-through entities and is not intended to be, and should not be, used by anyone other than these specified parties.

McGladrey & Pullen, LLP

Greensboro, North Carolina
August 25, 2006

Norfolk Community Services Board

Schedule of Findings and Questioned Costs
Year Ended June 30, 2006

I - Summary of Auditor's Results

Financial Statements:

Type of auditor's report issued:	Unqualified		
Internal control over financial reporting:			
Material weakness(es) identified?	<u> </u> Yes	<u> X </u>	No
Reportable condition(s) identified that are not considered to be material weakness(es)?	<u> </u> Yes	<u> X </u>	None Reported
Noncompliance material to financial statements noted?	<u> </u> Yes	<u> X </u>	No

Federal Awards:

Type of auditor's report issued on compliance for major federal programs:	Unqualified		
Internal control over major federal programs:			
Material weakness(es) identified?	<u> </u> Yes	<u> X </u>	No
Reportable condition(s) identified that are not considered to be material weakness(es)?	<u> </u> Yes	<u> X </u>	None Reported
Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133?	<u> </u> Yes	<u> X </u>	No

Identification of major federal programs:

Name of Program or Cluster	CFDA No.
Substance Abuse Federal Block Grant	93.959
Shelter Plus Care Grant	14.238

Dollar threshold used to distinguish between type A and type B programs: \$ 300,000

Auditee qualified as low-risk auditee? X Yes No

(Continued)

Norfolk Community Services Board

Schedule of Findings and Questioned Costs (Continued)
Year Ended June 30, 2006

II - Financial Statement Findings

None

III - Findings and Questioned Costs For Federal Awards

None

Norfolk Community Services Board

Summary Schedule of Prior Audit Findings
Year Ended June 30, 2006

There were no prior audit findings.